

Financial Statements
Barry County Community
Mental Health Authority

Hastings, Michigan

September 30, 2006



Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type <input type="checkbox"/> County <input type="checkbox"/> City <input type="checkbox"/> Twp <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Unit Name Barry County CMH Authority	County Barry
Fiscal Year End September 30, 2006	Opinion Date December 12, 2006	Date Audit Report Submitted to State March 19, 2007	

We affirm that:

We are certified public accountants licensed to practice in Michigan.


We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).

Check each applicable box below. (See instructions for further detail.)

1. ☒ ☐ All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
2. ☐ ☒ There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
3. ☒ ☐ The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
4. ☒ ☐ The local unit has adopted a budget for all required funds.
5. ☒ ☐ A public hearing on the budget was held in accordance with State statute.
6. ☒ ☐ The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
7. ☒ ☐ The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
8. ☒ ☐ The local unit only holds deposits/investments that comply with statutory requirements.
9. ☒ ☐ The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
10. ☒ ☐ There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
11. ☒ ☐ The local unit is free of repeated comments from previous years.
12. ☒ ☐ The audit opinion is UNQUALIFIED.
13. ☒ ☐ The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
14. ☒ ☐ The board or council approves all invoices prior to payment as required by charter or statute.
15. ☒ ☐ To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

We have enclosed the following:	Enclosed	Not Required (enter a brief justification)	
Financial Statements	<input checked="" type="checkbox"/>		
The letter of Comments and Recommendations	<input checked="" type="checkbox"/>		
Other (Describe)	<input type="checkbox"/>		
Certified Public Accountant (Firm Name) Roslund, Prestage & Co., P.C.		Telephone Number (989) 463-6123	
Street Address 308 Gratiot Avenue		City Alma	State MI
Zip 48801			
Authorizing CPA Signature 		Printed Name Chad Payton	License Number 21946

Barry County Community Mental Health Authority
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September 30, 2006

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INDEPENDENT AUDITOR'S REPORT

Barry County Community Mental Health Authority
Hastings, Michigan

We have audited the accompanying financial statements of the governmental activities, each major fund and the aggregate remaining fund information of Barry County Community Mental Health Authority (the Authority), as of and for the year ended September 30, 2006, which collectively comprise the Authority's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Authority's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund and the aggregate remaining fund information of the Authority as of September 30, 2006, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 12, 2006 on our consideration of the Authority's internal control over financial reporting and our test of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis and budgetary comparison information are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Authority's basic financial statements. The other supplemental financial information listed in the table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Roslund, Prestage & Co

Roslund, Prestage & Company, P.C.
Certified Public Accountants

December 12, 2006

MANAGEMENT'S DISCUSSION and ANALYSIS



Management's Discussion and Analysis

For the fiscal year ended September 30, 2006

Management of Barry County Community Mental Health Authority (BCCMHA) presents the following discussion and analysis of financial activities during fiscal year 2005/2006. This discussion and analysis is designed to assist the reader in focusing on significant financial issues and activities, and to identify material changes in financial position and results of operations. Please read this section in conjunction with the auditor's report and with our financial statements, notes to financial statements and supplemental information.

Beginning October 1, 2002, the Medicaid funds for Barry, as well as, Berrien, Branch, Calhoun, and Van Buren counties were paid to Calhoun County, D.B.A. Summit Pointe. Summit Pointe entered into a contract with the Michigan Department of Community Health (MDCH) to administer the above Medicaid funds for behavioral health services. Summit Pointe continued to operate as a Prepaid Inpatient Health Plan (PIHP) in fiscal year 2005/2006. Summit Pointe Board delegated the administration of the regional Medicaid contract to the Venture Administrative Board. The Venture Administrative Board consists of two voting members, the Chief Executive Officer and Board member or designee, from each of the five member counties and operates under the terms of the Intergovernmental Agreement for the Transfer of Functions and Responsibilities (ITRFA).

BCCMHA continued to contract with the Michigan Department of Community Health for the State General Fund services and Summit Pointe for Medicaid services for the priority population residing in Barry County. BCCMHA also continued to provide behavioral health services to other segments of population.

OVERVIEW OF FINANCIAL STATEMENTS

Basic financial statements, in accordance with generally accepted accounting principles (GAAP) - GASB 34, require the presentation of two types of financial statements. These are government-wide financial statements and fund financial statements.

Government-wide financial statements include the statement of net assets and the statement of activities. These provide both long-term and short-term information, and present a broad view of the overall financial status in a manner similar to a private sector business. Information presented in these statements is on the accrual basis of accounting. Long-term assets are capitalized and depreciated. Long-term debt is recorded as a liability. Revenues are recorded when "earned" and expenses recorded when "incurred", without regard to the timing of cash receipts or disbursement.

Management's Discussion and Analysis

For the fiscal year ended September 30, 2006

The statement of net assets includes all of the assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of improving or deteriorating financial position. The statement of activities presents information showing how net assets changed during the year as a result of operating activity.

Fund financial statements contain individual groups of related accounts and are used to report current assets, current liabilities, fund balance, revenues and expenditures for specific activities or funds segregated for legal requirements or other governmental objectives. These are presented in more detail as compared to the government-wide statements. The fund financial statements are reported on the modified accrual basis of accounting. Only those assets that are "measurable" and "currently available" are reported. Liabilities are recognized only to the extent that they are normally expected to be paid with current financial resources. Purchased capital assets are reported as expenditures in the year of acquisition. Issuance of debt is recorded as a financial resource with current year payment of principal and interest recorded as an expenditure.

Fund financial statements are divided into two categories. These are special revenue fund financial statements and proprietary fund financial statements.

Special revenue fund financial statements show how the community mental health supports and services programs were financed in the short term as well as what remains for future spending.

Proprietary fund financial statements show internal service funds reserved for risk management. These funds are held as a self-funded insurance risk reserve to protect against unanticipated current and future financial exposures related to supports and services at-risk contracts.

Management's Discussion and Analysis

For the fiscal year ended September 30, 2006

Strength of Financial Position

Changes in financial position which help ensure the agency's future ability to provide services are:

	Balance at 10/1/2005	Increase (Decrease)	Balance at 9/30/06
Internal Service Funds			
Total Internal Service Funds	<u>\$128,015</u>	<u>542</u>	<u>\$128,557</u>
General Fund Fund Balance			
Reserved	64,222	2,463	66,685
Unreserved	<u>423,254</u>	<u>83,656</u>	<u>506,910</u>
Total Fund Balance	\$487,476	\$86,119	\$573,595

The Internal Service Funds together with the unreserved fund balance of the General Funds represent an estimated 44.5 days of operations based on daily operational needs. This is an increase of 2.2 days over fiscal year 2005.

A crosswalk for the government - wide statement of net assets to the fund financial statements is included with this document as Appendix A. This statement gives a breakdown of what comprises the government-wide calculations for Assets, Liabilities, and Total Net Assets and Fund Balance. As the statement notes, the Total Net Assets is \$739,659 which is an increase of \$112,006 over fiscal Year 2005.

BCCMHA remains in good financial condition based on the above information. Due to the ability to retain excess Adult Benefit Waiver and local funding and prudent budget control, the overall financial position has continued to improve on a yearly basis.

SUMMARY OF ACTIVITIES

Fiscal year 2006 revenues were \$5,405,931 compared to fiscal year 2005 revenues of \$4,845,349. This increase was mainly attributable to an increase in Medicaid funding due to increased persons eligible for service. Fiscal year 2006 expenses were \$5,322,722 compared to fiscal year 2005 expenses of \$4,763,606. This increase was attributed to several things including added staff positions, annual salary increases, increase in business costs due to inflation, capital expenditures, and an increase in number of services provided.

Management's Discussion and Analysis

For the fiscal year ended September 30, 2006

Regional Medicaid revenues exceeded expenditures by \$221,064. These funds will be returned to Summit Pointe as the Venture Host Board in an effort to maximize Medicaid savings in fiscal year 2007.

BCCMHA General Fund revenues exceeded expenditures by \$20,729 (which is recognized as a liability) after the agency maximized the General Fund carryforward amount (5% of General Fund revenues) of \$85,704. These carryforward funds must be spent in fiscal year 2007. The Internal Service Fund (ISF) earned \$1,662 in interest and stands at \$128,557. The ISF is currently funded at the maximum amount allowed under the Department of Community Health Contract (per the contract, the ISF can be funded up to 7.5% of General Fund revenues).

Local funds (patient service revenues, interest income, and other) exceeded local match obligations by \$49,948. Local match surplus contributed to the increase of unrestricted fund balance.

BCCMHA continued to have six consumers enrolled in the Habilitation Supports waiver program through Medicaid. This program allows for additional services and funding for consumers residing in specialized residential homes who would otherwise reside in an institution. This provided \$262,683 in additional funding for fiscal year 2006 compared to \$197,276 for fiscal year 2005.

The Adult Benefit Waiver was introduced as a new funding stream in 2004. This category provides benefit to consumers who were originally covered under the Medicaid State Medical plan. This plan allows coverage of a list of selected services. BCCMHA received funding for fiscal year 2006 of \$145,609 compared to fiscal year 2005 of \$142,275. Expenditures on this population for fiscal year 2006 were \$53,171 compared to fiscal year 2005 spending of \$65,438.

In fiscal year 2006, BCCMHA continued to invest in certificates of deposit in an effort to maximize interest. A laddering system was again used to allow maximum investing without restricting large amounts of agency cash. The agency invested an additional \$100,000 in fiscal year 2006 and enjoyed increased interest rates. Total interest earned during the year was \$25,343 compared to fiscal year 2005 earnings of \$11,566.

In fiscal year 2006, the number of computer licenses was increased due to an increase in number of staff. Other purchases included a color laser printer, file scanning system for storage of client files, four handheld recorders, hot water heater for the Positive Directions location, a minivan, and a lift van (prior van lift was transferred to the new van). The minivan was purchased due to increased community activities for consumers. The lift van was purchased to replace the prior van due to age.

Management's Discussion and Analysis

For the fiscal year ended September 30, 2006

BCCMHA continued a conservative fiscal approach throughout 2006; however, the agency was able to make necessary purchases to maintain operations and meet the demand for services. BCCMHA served 1589 in fiscal year 2006 compared to 1424 in fiscal year 2005.

FUTURE OUTLOOK

The state of Michigan continues to attempt to manage a budget deficit. BCCMHA and the mental health system as a whole have been primarily held harmless in the past to any budget reductions. However, as the Federal and State governments continue to look for ways to reform the Medicaid system and heal the fiscal damage, it is likely mental health will be targeted for fiscal reform in 2007. The Michigan Legislature continues to show interest in mental health spending with administrative costs being a primary focus. With that in mind the mental health system is uniting under a Department of Community Health directive to ensure that administrative costing be uniform throughout the whole system. To be sure, there are changes in process in all levels of the system. Fiscal year 2007 will be challenging both financially and politically.

BCCMHA continues to be a fiscally healthy agency. Conservative spending, a focus on quality consumer care, and dedication to compliance have ensured that the agency remain in a positive position. The agency will continue into fiscal year 2007 with its characteristic conservative attitude in an effort to maximize benefits to those we serve.

Crosswalk: Government-wide Statement of Net Assets to Fund Financial Statements

	Government Wide	General Fund	Governmental Activities/ISF	Fixed Assets	Long-term Debt
Assets					
Current Assets					
Cash and cash equivalents	1,265,513	1,135,836	129,677		
Accounts receivable	1,313	1,313			
Due from other governmental units	36,929	36,929			
Due from other funds		1,120			
Prepaid items	<u>66,685</u>	<u>66,685</u>			
Total current assets	<u>1,370,440</u>	<u>1,241,883</u>	<u>129,677</u>		
Noncurrent assets					
Capital assets - depreciable, net	<u>172,877</u>			<u>172,877</u>	
Total Assets	<u>1,543,317</u>	<u>1,241,883</u>	<u>129,677</u>	<u>172,877</u>	
Liabilities					
Current liabilities					
Accounts Payable	211,773	211,773			
Accrued wages and other payroll liabilities	90,441	90,441			
Deferred Revenue	85,704	85,704			
Due to other governmental units	<u>280,370</u>	<u>280,370</u>	<u>1,120</u>		
Due to other funds					
Total current liabilities	<u>668,288</u>	<u>668,288</u>	<u>1,120</u>		
Noncurrent liabilities					
Compensated absences	<u>135,370</u>				<u>135,370</u>
Total Noncurrent Liabilities	<u>135,370</u>				
Total Liabilities	<u>803,658</u>	<u>668,288</u>	<u>1,120</u>		<u>135,370</u>
Net Assets/Fund Balance					
Invested in capital assets, net of related debt	172,877			172,877	
Reserved for risk management	128,557		<u>128,557</u>		
Reserved for prepaid items		66,685			
Unrestricted	<u>438,225</u>	<u>506,910</u>			
Total Net Assets/Fund Balance	<u>739,659</u>	<u>573,595</u>	<u>128,557</u>	<u>172,877</u>	<u>135,370</u>

**BASIC FINANCIAL STATEMENTS -
GOVERNMENT-WIDE FINANCIAL STATEMENTS**

Barry County Community Mental Health Authority
Statement of Net Assets
September 30, 2006 and 2005

	Governmental Activities	
	2006	2005
Assets		
Current assets		
Cash and cash equivalents	\$1,265,513	\$1,341,803
Accounts receivable	1,313	-
Due from other governmental units	36,929	5,619
Prepaid items	66,685	64,222
Total current assets	1,370,440	1,411,644
Noncurrent assets		
Capital assets - depreciable, net	172,877	152,925
Total assets	1,543,317	1,564,569
Liabilities		
Current liabilities		
Accounts payable	211,773	175,951
Accrued wages and other payroll liabilities	90,441	78,577
Deferred revenue	85,704	85,344
Due to other governmental units	280,370	456,281
Total current liabilities	668,288	796,153
Noncurrent liabilities		
Compensated absences	135,370	140,763
Total noncurrent liabilities	135,370	140,763
Total liabilities	803,658	936,916
Net Assets		
Invested in capital assets, net of related debt	172,877	152,925
Restricted for risk management	128,557	128,015
Unrestricted	438,225	346,713
Total net assets	\$739,659	\$627,653

See Accompanying Notes To Financial Statements

Barry County Community Mental Health Authority
Statement of Activities
For the Year Ended September 30, 2006, With Comparative Data

Functions	Program Revenues			Net (Expense) Revenue and Changes Net Assets	2005
	Expenses	Charges for Services	Operating Grants and Contributions		
Governmental activities					
Health & Welfare - Mental Health	\$5,297,377	\$3,316,330	\$2,064,258	\$83,211	\$73,595
General revenues					
Unrestricted investment earnings				25,343	11,566
Restricted investment earnings				1,662	1,362
Total general revenues and contributions				27,005	12,928
Change in net assets				110,216	86,523
Net assets - beginning of year				627,653	542,620
Prior period adjustment				1,790	(1,490)
Net assets - end of year				\$739,659	\$627,653

See Accompanying Notes To Financial Statements

FUND FINANCIAL STATEMENTS

Barry County Community Mental Health Authority
Balance Sheet
Governmental Funds
September 30, 2006 and 2005

	General Fund	
	2006	2005
Assets		
Cash and cash equivalents	\$1,135,836	\$1,213,788
Accounts receivable	1,313	-
Due from other governmental units	36,929	5,619
Due from other funds	1,120	-
Prepaid items	66,685	64,222
Total assets	<u>\$1,241,883</u>	<u>\$1,283,629</u>
Liabilities		
Accounts payable	\$211,773	\$175,951
Accrued wages and other payroll liabilities	90,441	78,577
Deferred revenue	85,704	85,344
Due to other governmental units	280,370	456,281
Total liabilities	<u>668,288</u>	<u>796,153</u>
Fund balances		
Reserved for prepaid items	66,685	64,222
Unreserved	506,910	423,254
Total fund balances	<u>573,595</u>	<u>487,476</u>
Total liabilities and fund balances	<u>\$1,241,883</u>	<u>\$1,283,629</u>

See Accompanying Notes To Financial Statements

Barry County Community Mental Health Authority
Reconciliation of Fund Balances on the Balance Sheet for Governmental Funds
to Net Assets of Governmental Activities on the Statement of Net Assets
For the Year Ended September 30, 2006

Total fund balance - governmental funds	\$573,595
Amounts reported for governmental activities in the statement of net assets are different because:	
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.	
Add: capital assets	416,181
Deduct: accumulated depreciation	(243,304)
An internal service fund is used by management to cover the risk of overspending the Managed Care Specialty Services Program contract. The assets and liabilities of the internal service fund are included in governmental activities in the statement of net assets.	
Add: net assets of governmental activities accounted for in the internal service fund	128,557
Some liabilities are not due and payable in the current period and, therefore, are not reported in the funds. Those liabilities consist of:	
Deduct: Compensated absences	<u>(135,370)</u>
Net assets of governmental activities	<u><u>\$739,659</u></u>

See Accompanying Notes To Financial Statements

Barry County Community Mental Health Authority
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For the Years Ended September 30, 2006 and 2005

REVENUES	<u>2006</u>	<u>2005</u>
State grants		
Department of Community Health Contract		
General Fund Formula and Categorical	\$1,700,499	\$1,403,347
Adult Benefit Waiver	145,609	142,275
Other state grants	41,219	39,740
Total state grants	<u>1,887,327</u>	<u>1,585,362</u>
Federal grants	<u>11,496</u>	<u>10,260</u>
Contributions - local units		
County appropriations	<u>154,500</u>	<u>154,500</u>
Charges for services		
Medicaid	3,224,086	2,991,445
Client and third party pay	92,244	83,219
Total charges for services	<u>3,316,330</u>	<u>3,074,664</u>
Interest and rents		
Interest	<u>25,343</u>	<u>11,566</u>
Other revenue		
Miscellaneous	<u>10,935</u>	<u>8,997</u>
Total revenues	5,405,931	4,845,349
EXPENDITURES		
Health & Welfare - Mental Health		
Personnel costs	2,481,775	2,211,518
Operating expenditures	2,771,617	2,489,433
Capital outlay	<u>69,330</u>	<u>62,655</u>
Total expenditures	<u>5,322,722</u>	<u>4,763,606</u>
Revenues over (under) expenditures	83,209	81,743
Other financing sources (uses)		
Operating transfers in - Internal service fund	<u>1,120</u>	<u>9,816</u>
Revenues and other sources over (under) expenditures and other uses	84,329	91,559
Fund balance, beginning of year	487,476	397,407
Prior period adjustment	<u>1,790</u>	<u>(1,490)</u>
Fund balance, end of year	<u><u>\$573,595</u></u>	<u><u>\$487,476</u></u>

See Accompanying Notes To Financial Statements

Barry County Community Mental Health Authority
Reconciliation of the Statement of Revenues, Expenditures
and Changes in Fund Balances of Governmental Funds
to the Statement of Activities
For the Year Ended September 30, 2006

Net change in fund balances - total governmental funds	\$83,209
Amounts reported for governmental activities in the statement of activities are different because:	
Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense.	
Add: capital outlay	69,330
Deduct: depreciation expense	(48,760)
Deduct: loss on disposal of capital assets	(618)
An internal service fund is used by management to cover the risk of overspending the Managed Care Specialty Services Program contract. The interest income of that fund is reported with governmental activities.	
Add: interest income	1,662
Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in the funds.	
Add: Decrease in accrual for compensated absences	<u>5,393</u>
Change in net assets of governmental activities	<u><u>\$110,216</u></u>

See Accompanying Notes To Financial Statements

Barry County Community Mental Health Authority
Statement of Net Assets
Proprietary Funds
September 30, 2006 and 2005

	<u>Internal Service Funds</u>	
	<u>2006</u>	<u>2005</u>
Assets		
Cash and cash equivalents	\$129,677	\$128,015
Liabilities		
Due to other funds	<u>1,120</u>	<u>-</u>
Net assets		
Restricted	<u><u>\$128,557</u></u>	<u><u>\$128,015</u></u>

See Accompanying Notes To Financial Statements

Barry County Community Mental Health Authority
Statement of Revenues, Expenses and Changes in Fund Net Assets
Proprietary Funds
For the Years Ended September 30, 2006 and 2005

	<u>Internal Service Funds</u>	
	<u>2006</u>	<u>2005</u>
Operating transfers		
Operating transfers out -		
Michigan Department of Community Health	-	(\$7,679)
Operating transfers out - General Fund	<u>(\$1,120)</u>	<u>(9,816)</u>
Operating income (loss)	(1,120)	(17,495)
Non-operating revenues		
Interest income	<u>1,662</u>	<u>1,362</u>
Change in net assets	542	(16,133)
Net assets, beginning of year	<u>128,015</u>	<u>144,148</u>
Net assets, end of year	<u><u>\$128,557</u></u>	<u><u>\$128,015</u></u>

See Accompanying Notes To Financial Statements

Barry County Community Mental Health Authority
Statement of Cash Flows
Proprietary Funds
For the Years Ended September 30, 2006 and 2005

	<u>Internal Service Funds</u>	
	<u>2006</u>	<u>2005</u>
Cash flows from operating activities		
Internal activity - operating transfers out	<u>-</u>	<u>(\$17,495)</u>
Net cash provided by operating activities	-	(17,495)
Cash flows from investing activities		
Interest income	<u>\$1,662</u>	<u>1,362</u>
Net cash provided by investing activities	1,662	1,362
Net increase (decrease) in cash	1,662	(16,133)
Cash and cash equivalents, beginning of year	<u>128,015</u>	<u>144,148</u>
Cash and cash equivalents, end of year	<u><u>\$129,677</u></u>	<u><u>\$128,015</u></u>
Reconciliation of operating income (loss) to net cash provided (used) by operating activities		
Operating income (loss)	(\$1,120)	(\$17,495)
Change in assets and liabilities		
Due to other funds	<u>1,120</u>	<u>-</u>
Cash flows from operating activities	<u><u>-</u></u>	<u><u>(\$17,495)</u></u>

See Accompanying Notes To Financial Statements

NOTES TO THE FINANCIAL STATEMENTS

Barry County Community Mental Health Authority
Notes to the Financial Statements

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the Barry County Community Mental Health Authority (the Authority) conform to accounting principles generally accepted in the United States of America as applicable to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The following is a summary of the significant accounting policies used by the Authority.

Reporting Entity

The Authority operates as a Community Mental Health Authority under the provisions of Act 258 - Public Acts of 1974, as amended. The Authority provides funding for services in the areas of mental illness, developmental disabilities, and other related mental health needs for residents of Barry County.

The accompanying financial statements have been prepared in accordance with criteria established by the Governmental Accounting Standards Board for determining the various governmental organizations to be included in the reporting entity. These criteria include significant operational financial relationships that determine which of the governmental organizations are a part of the Authority's reporting entity, and which organizations are legally separate, component units of the Authority. Based on the application of the criteria, the Authority does not contain any component units.

Government-Wide and Fund Financial Statements

The government-wide financial statements (i.e. the statement of net assets and the statement of activities) report information on all of the non-fiduciary activities of the Authority. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a function are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenues include charges to consumers who purchase, use or directly benefit from services provided by a given function. Program revenues also include grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Other items not properly included among program revenues are reported instead as general revenues. Resources that are dedicated internally are reported as general revenues rather than as program revenues.

Barry County Community Mental Health Authority
Notes to the Financial Statements

Net assets are restricted when constraints placed on them are either externally imposed or are imposed by constitutional provisions or enabling legislation. Internally imposed designations of resources are not presented as restricted net assets. When both restricted and unrestricted resources are available for use, generally it is the Authority's policy to use restricted resources first, then unrestricted resources as they are needed.

Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds are reported as separate columns in the fund financial statements.

Measurement Focus, Basis of Accounting and Financial Statement Presentation

Government-Wide Financial Statements – The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental Fund Financial Statements - The governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Authority considers revenues to be available if they are collected within 60 days of the end of the current fiscal year end.

An exception to the "60 day" rule is the recognition of certain patient fee revenues and the related receivables. The Authority has elected to recognize these revenues on the cash basis of accounting, which is in compliance with the Department of Community Health's revenue recognition formula. The difference between the cash basis of accounting and modified accrual basis of accounting for these revenues are not material to the financial statements. Expenditures generally are recorded when a liability is incurred, as under accrual accounting.

Modifications to the accrual basis of accounting include:

- Employees' vested annual leave is recorded as expenditures when utilized. The amount of accumulated annual leave unpaid at September 30, has been reported only in the government-wide financial statements.
- Interest on general long-term obligations is recognized when paid.
- Debt service expenditures and claims and judgments are recorded only when payment is due.

Barry County Community Mental Health Authority
Notes to the Financial Statements

Proprietary Fund Financial Statements – The financial statements of the proprietary funds are reported using the economic resources measurement focus and the accrual basis of accounting, similar to the government-wide statements described above.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, are followed to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. Revenues and expenses not meeting this definition are reported as non-operating revenues and expenses. The principal operating revenues of the internal service fund are charges to other funds for insurance services. Operating expenses for internal service funds include the cost of claims, administration and reinsurance. Any revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

The Authority reports the following major governmental and proprietary funds:

Governmental Funds

General Fund – This fund is the Authority's primary operating fund. It accounts for all financial resources of the Authority, except those required to be accounted for in other funds.

Proprietary Funds

Internal Service Fund - This fund represents amounts set aside to fund the net uninsured exposure of potential shortfalls of contract revenues.

Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

Comparative Data

Comparative total data for the prior year has been presented in order to provide an understanding of the changes in financial position and operations. Also, certain amounts presented in the prior year may have been reclassified in order to be consistent with the current year's presentation.

Barry County Community Mental Health Authority
Notes to the Financial Statements

Budgetary Data

The Authority adopts an annual budget for the general fund. The budget is adopted and prepared on the modified accrual basis of accounting. The budget is adopted at the function level. The budgeted revenues and expenditures for governmental fund types, as presented in this report, include any authorized amendments to the original budget as adopted.

Cash and Cash Equivalents

The Authority's cash and cash equivalents are considered to be cash on hand, money market funds, demand deposits and certificates of deposit.

Receivables

Accounts receivable in all funds report amounts that have arisen in the ordinary course of business and are stated net of allowances for uncollectible amounts.

Due from other governmental entities consist primarily of amounts due from the Michigan Department of Community Health and Summit Pointe.

Prepaid Items

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements.

Inventories

The Authority does not recognize as an asset inventories of supplies. The cost of these supplies is considered immaterial to the financial statements and the quantities are not prone to wide fluctuation from year to year. The costs of such supplies are expensed when purchased.

Capital Assets

Capital assets, which include property, plant and equipment, are reported in the governmental activities column in the government-wide financial statements. Capital assets are defined by the government as individual assets with an initial cost equal to or more than \$1,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

Barry County Community Mental Health Authority
Notes to the Financial Statements

The Authority does not have infrastructure type assets.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during construction of capital assets is not capitalized. No interest expense was incurred during the current year.

Capital assets utilized in the governmental funds are recorded as expenditures in the governmental fund financial statements. Depreciation expense is recorded in the government-wide financial statements.

Capital assets of the Authority are depreciated using the straight line method over the following estimated useful lives:

Assets	Years
Computer Equipment	5
Furniture and Fixtures	5 – 15
Office Equipment	5 – 10
Vehicles	5

Inpatient / Residential Cost Liability

The amount recorded for inpatient / residential liability is based on management's estimate. This estimate is based on 1) the number of clients at each facility, 2) the number of days each client is at each facility, and 3) the daily rate charged for each facility.

The Authority does not receive actual billings for these services until several months after the service date. Therefore, the liability is not liquidated within the normal 60 day period after year end. Also, the actual cost may vary from the estimated due to reimbursements from third party payors that are applied to the total cost before the billings are sent to the Authority. This liability is included in accounts payable and due to other governmental units.

Deferred Revenue

Deferred revenue arises when resources are received by the Authority before it has a legal claim to them. In subsequent periods, when the revenue recognition criterion is met, or when the Authority has a legal claim to the resources, the liability for deferred revenue is removed from the fund financial statements and government-wide financial statements, and revenue is recognized.

Barry County Community Mental Health Authority
Notes to the Financial Statements

Governmental Fund – Fund Balance Reserves and Designations

The governmental fund financial statements present fund balance reserves for those portions of fund balance (1) not available for appropriation for expenditure or (2) legally segregated for a specific future use. The reserves for related assets such as prepaid items are examples of the former. Reserves for risk management are examples of the latter.

MDCH Revenue

General Fund Revenue

The Authority provides mental health services on behalf of the Michigan Department of Community Health (MDCH). Currently, the Authority contracts directly with the MDCH for General Fund revenues to support the services provided for priority population residing in Barry County.

Medicaid Revenue

Also, the Authority contracts to receive Medicaid revenue through Summit Pointe for Medicaid-qualified services rendered to residents of Barry County. Summit Pointe contracts with the MDCH to administer these Medicaid funds.

NOTE 2 - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

Budgetary Information

Annual budgets are adopted at the function level and on a basis consistent with generally accepted accounting principles for the general fund. All annual appropriations lapse at fiscal year end. The Authority does not maintain a formalized encumbrance accounting system. The budgeted revenues and expenditures, as presented in this report, include any authorized amendments to the original budget as adopted.

Excess of Expenditures over Appropriations

P.A. 621 of 1978, Section 18(1), as amended, provides that a local unit shall not incur expenditures in excess of the amount appropriated.

During the year ended September 30, 2006, the Authority incurred expenditures in excess of the amounts appropriated as shown on page 26 of this report.

Barry County Community Mental Health Authority
Notes to the Financial Statements

NOTE 3 – DETAIL NOTES

Cash and Cash Equivalents

At September 30, the carrying amount of the Authority's cash and cash equivalents are as follows:

	2006	2005
Petty Cash	\$557	\$370
Cash deposits	864,956	1,041,433
Certificates of deposit	400,000	300,000
Totals	\$1,265,513	\$1,341,803

Custodial Credit Risk – Deposits

Custodial credit risk is the risk that, in the event of a bank failure, the Authority's deposits might not be recovered. At September 30, 2006, the carrying amount of the Authority's deposits was \$1,264,956, and the bank balance was \$1,348,162. Of the bank balance, \$200,000 was covered by federal depository insurance and \$1,148,162 was uninsured and uncollateralized. Deposits which exceed FDIC insurance coverage limits are held at local banks. The Authority believes that due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all bank deposits. As a result, the Authority evaluates each financial institution with which it deposits funds and assesses the level of risk of each institution. Only those institutions with an acceptable estimated risk level are used as depositories.

Investments

State statutes authorize the Authority to invest in obligations and certain repurchase agreements of the United States Treasury and related governmental agencies, commercial paper, banker's acceptances of the United States banks, obligations of the State of Michigan or any of its political subdivisions, and mutual funds composed entirely of the above investments. As of September 30, 2006, the Authority had no such investments.

The Authority's investment policy complies with the State statutes and has no additional investment policies that would limit its investment choices.

Barry County Community Mental Health Authority
Notes to the Financial Statements

Interest Rate Risk – Investments

Under State statutes, investment in commercial paper is limited to maturities of not more than 270 days after the date of purchase. The Authority's investment policy does not place any further limitations on investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Custodial Credit Risk – Investments

Custodial credit risk is the risk that, in the event of a failure of the counterparty, the Authority will not be able to recover the value of its investments that are in the possession of an outside party. The Authority requires all security transactions, including collateral for repurchase agreements, to be made on a cash basis or a delivery vs. payment basis. Securities may be held by a third party custodian and must be evidenced by safekeeping receipts. The Authority does not have any additional policies for custodial credit risk over investments.

Credit Risk

State statutes limit investments in commercial paper to be rated at the time of purchase within the three highest classifications established by not less than two standard rating services. Investments in obligations of the State of Michigan or its political subdivisions must be rated as investment grade by not less than one rating service. Investments in bonds, obligations, or repurchase agreements must be made with the U.S. Treasury and banker's acceptances with United States banks. The Authority's investment policy limits investments to be made with prudent judgment as to the safety of the invested capital and probable outcome of income.

Concentration of Credit Risk

The Authority places no limit on the amount it may invest in any one issuer.

Due from Other Governmental Units

Due from other governmental units as of September 30, consists of the following:

	2006	2005
MDCH - OBRA Grant	-	\$656
MDCH – Juvenile Justice Grant	\$4,277	3,816
MDCH – Other Grants	5,121	-
Barry County	1,069	1,147
Summit Pointe	26,462	-
Totals	\$36,929	\$5,619

Barry County Community Mental Health Authority
Notes to the Financial Statements

Capital Assets

A summary of changes in the Authority's capital assets follows:

Governmental Activities	Beginning Balance	Additions	Disposals	Ending Balance
Computer Equipment	\$190,522	\$21,790	(\$16,110)	\$196,202
Furniture and Fixtures	60,345	1,000	-	61,345
Office Equipment	81,564	7,613	(8,888)	80,289
Vehicles	44,768	38,927	(5,350)	78,345
Sub-totals	377,199	69,330	(30,348)	416,181
Accumulated Depreciation	(224,274)	(48,760)	29,730	(243,304)
Totals	\$152,925	\$20,570	(\$618)	\$172,877

Depreciation expense was charged to the Health & Welfare – Mental Health Program.

Due to Other Governmental Units

Due to other governmental units as of September 30, consist of the following:

	2006	2005
Department of Community Health - Inpatient Services	\$38,577	\$8,005
Department of Community Health – Cost Settlement	20,729	317,343
Summit Pointe	221,064	130,933
Totals	\$280,370	\$456,281

Accrued Wages and Other Payroll Liabilities

This liability represents amounts paid to employees during October that was earned during September. Also included are employer payroll taxes.

Deferred Revenue

The amount reported as deferred revenue represents the carry forward allowance for the general fund portion of the Department of Community Health's authorization.

Barry County Community Mental Health Authority
Notes to the Financial Statements

Long Term Liabilities - Compensated Absences

Authority policy allows full time employees to accumulate "paid time off" at various rates, depending on the employee's length of service with the Authority. Amounts accumulated up to a maximum accrual are to be paid to the employee and recognized as an expense either when compensated absences are used or upon termination of employment, provided the employee has worked for the Authority for at least one year. As of September 30, 2006 and 2005, this liability totaled \$135,370 and \$140,763 respectively.

Operating Leases

The Authority has entered into various operating leases for the use of real and personal property. Operating leases do not give rise to property rights or lease obligations, and therefore, the leased assets are not reflected in the government-wide financial statements.

The future minimum rental payments required under the operating leases that have initial or remaining noncancelable lease terms as of September 30, are as follows:

YEAR ENDING SEPTEMBER 30,	AMOUNT
2007	\$299,236
2008	75,133
2009	54,760
2010	31,943
2011	-

Employee Retirement Systems

Plan Description

The Authority participates in the Michigan Municipal Employees Retirement System (MERS), an agent multiple-employer defined benefit pension plan that covers all of the Authority's regular full-time employees. The system provides retirement, disability and death benefits to plan members and their beneficiaries. MERS issues a publicly available financial report that includes financial statements and required supplementary information for the system. That report may be obtained by writing to Gabriel, Roeder, Smith & Company, One Towne Square, Suite 800, Southfield, Michigan 48076.

Barry County Community Mental Health Authority
Notes to the Financial Statements

The most recent period for which actuarial data was available was for the year ended December 31, 2005. The Authority's payroll for the employees covered by the system for the year ended December 31, 2005 was \$1,435,566.

As of December 31, 2005, employee membership data related to the pension plan was as follows:

Retirees and beneficiaries currently receiving benefits	0
Active plan participants	40
Vested former members	3
Total	43

Funding Policy

Under the provisions of this plan, members contribute approximately ½ of 1% of annual compensation. If a member leaves the Authority or dies, without a retirement allowance or other benefit payable on his / her account, his / her accumulated contributions will be refunded to him / her, if living, or to his / her nominated beneficiary.

Benefit programs and provisions are established by the Retirement Board. All benefits vest after 10 years of service, except that benefits may vest after eight or six years of service if adopted by the municipality's governing body. The standard retirement age is 60 years; however, members may retire with several combinations of age and years of service and receive reduced early retirement benefits. Municipalities may adopt various other benefit programs which allow retirement at an earlier age with unreduced benefits based upon combinations of age and years of service, or just years of service. MERS also provides non-duty disability and death benefits to members after vesting requirements are met.

Funding Status and Progress

The amount shown below as the "pension benefit obligation" is based on the standardized disclosure measure of the present value of pension benefits, adjusted for the effects of projected salary increases and separate benefits, estimated to be payable in the future as a result of employee services to date. The measure is the actuarial present value of credited projected benefits and is intended to (1) help users assess the plan's funding status of the system on a going-concern basis; (2) assess progress made in accumulating sufficient assets to pay benefits when due; and (3) make comparisons among public employee retirement plans. The measure is independent of the actuarial funding method used to determine contributions to the plan.

Barry County Community Mental Health Authority
Notes to the Financial Statements

The pension benefit obligation was determined as part of an actuarial valuation of the plan as of December 31, 2005. Significant actuarial assumptions used in determining the pension benefit obligation include (a) a rate of return on the investment of present and future assets of 8.0% and (b) projected salary increases of 4.5% per year plus a percentage based on an age-related scale to reflect merit, longevity and promotional salary increases.

At December 31, 2005, the assets were less than the pension benefit obligation by \$407,545, determined as follows:

GASB 25 Information	
Actuarial Accrued Liability	
Retirees and beneficiaries currently receiving benefits	\$0
Terminated employees not yet receiving benefits	33,222
Non-vested terminated employees	7,655
Current Employees:	
Accumulated employee contributions including allocated investment income	104,361
Employer financed	1,949,251
Total actuarial accrued liability	2,094,489
Net assets available for benefits at actuarial value (market = \$1,642,492)	1,686,944
Unfunded actuarial accrued liability	\$407,545
GASB 27 Information	
Fiscal Year Beginning	April 1, 2007
Annual Required Contribution (ARC)	\$117,312
Amortization factor used – under-funded liabilities (30 years)	.053632

Three year trend information follows:

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability	Unfunded AAL (UAAL)	Fund Ratio	Covered Payroll	UAAL as a Percentage of Covered Payroll
12-31-03	1,225,999	1,782,111	(556,112)	69%	1,364,764	41%
12-31-04	1,450,832	1,836,951	(386,119)	79%	1,325,847	29%
12-31-05	1,686,944	2,094,489	(407,545)	81%	1,435,566	29%

Barry County Community Mental Health Authority
Notes to the Financial Statements

Compliance Audits

The Authority participates in various federal, state, and local grants for mental health and substance abuse programs. Certain provisions and allowable levels of participation and expenditures not qualifying for participation are subject to interpretation and adjustment by appropriate governmental agencies. State grants are subject to audit by responsible state agencies. Although these audits may result in some changes, they are not expected to have a material effect on the financial statements.

Risk Management

Michigan Municipal Risk Management Authority

The Authority participated in the public entity risk pool – Michigan Municipal Risk Management Authority (MMRMA) for auto and general liability, property and crime and vehicle physical damage coverage.

MMRMA, a separate legal entity, is a self-insured association organized under the laws of the State of Michigan to provide self-insurance protection against loss and risk management services to various Michigan governmental entities.

As a member of this pool, the Authority is responsible for paying all costs, including damages, indemnification, and allocated loss adjustment for each occurrence that falls within the member's self-insured retention (SIR). The Authority's SIR is between \$0- and \$250. After the Authority's SIR and deductibles have been satisfied, MMRMA will be responsible for paying all remaining costs, including damages, indemnification, and allocated loss adjustment expenses to the limits of coverage stated below.

MMRMA's coverage limits are between \$0 and \$5,000,000 for liability, and between \$10,000 and \$200,000,000 for property and crime.

The contribution made by the Authority to the MMRMA was \$23,155 for the period July 1, 2006 to July 1, 2007.

Risk Management – Internal Service Fund

During the September 30, 1998 fiscal year, the Authority authorized the establishment of an Internal Service Fund. This fund is used to cover the risk of overspending the Managed Care Specialty Services Program (MCSSP) contract. This contract provides for the use of Department of Community Health funding for the establishment of an Internal Service Fund, which is restricted to meet the expected future risk corridor requirements of the contract. Expenditures from the Internal Service Fund will occur when, in any one fiscal year, the Authority finds it necessary to expend more to provide services necessary to carry out the MCSSP contract requirements than revenue provided to the Authority by the contract.

Barry County Community Mental Health Authority
Notes to the Financial Statements

Prior Period Adjustment

The following transactions were recognized in these financial statements as prior period adjustments:

Description	2006	2005
Adjustment to prior year cost settlement document filed with the Michigan Department of Community Health	\$2,070	-
Other	(280)	(\$1,490)
Totals	\$1,790	(\$1,490)

REQUIRED SUPPLEMENTAL INFORMATION

Barry County Community Mental Health Authority
Statement of Revenues, Expenditures and Changes
in Fund Balance - Budget and Actual
General Fund
For the Year Ended September 30, 2006

	Budgeted Amounts			Variance Between Actual and Final Budget
	Original	Final	Actual	
REVENUES				
State grants				
Department of Community Health Contract				
General Fund Formula and Categorical	\$1,803,551	\$1,803,551	\$1,700,499	(\$103,052)
Adult Benefit Waiver	141,254	141,254	145,609	4,355
Other state grants	51,108	51,108	41,219	(9,889)
Total state grants	<u>1,995,913</u>	<u>1,995,913</u>	<u>1,887,327</u>	<u>(108,586)</u>
Federal grants	<u>10,000</u>	<u>10,000</u>	<u>11,496</u>	<u>1,496</u>
Contributions - local units				
County appropriations	<u>154,500</u>	<u>154,500</u>	<u>154,500</u>	<u>-</u>
Charges for services				
Medicaid	3,431,985	3,431,985	3,224,086	(207,899)
Client and third party pay	91,800	91,800	92,244	444
Total charges for services	<u>3,523,785</u>	<u>3,523,785</u>	<u>3,316,330</u>	<u>(207,455)</u>
Interest and rents				
Interest	<u>12,000</u>	<u>12,000</u>	<u>25,343</u>	<u>13,343</u>
Other revenue				
Miscellaneous	<u>2,900</u>	<u>2,900</u>	<u>10,935</u>	<u>8,035</u>
Total revenues	<u>5,699,098</u>	<u>5,699,098</u>	<u>5,405,931</u>	<u>(293,167)</u>
EXPENDITURES				
Health & Welfare - Mental Health				
Personnel costs	2,423,415	2,423,415	2,481,775	(58,360)
Operating expenditures	2,849,922	2,849,922	2,771,617	78,305
Capital outlay	<u>36,000</u>	<u>36,000</u>	<u>69,330</u>	<u>(33,330)</u>
Total expenditures	<u>5,309,337</u>	<u>5,309,337</u>	<u>5,322,722</u>	<u>(13,385)</u>
Revenues over (under) expenditures	<u>389,761</u>	<u>389,761</u>	<u>83,209</u>	<u>(306,552)</u>
Other financing sources (uses)				
Operating transfers in - Internal service fund	<u>-</u>	<u>-</u>	<u>1,120</u>	<u>1,120</u>
Revenues and other sources over (under) expenditures and other uses	<u>389,761</u>	<u>389,761</u>	<u>84,329</u>	<u>(305,432)</u>
Fund balance, beginning of year	<u>487,476</u>	<u>487,476</u>	<u>487,476</u>	<u>-</u>
Prior period adjustment	<u>-</u>	<u>-</u>	<u>1,790</u>	<u>1,790</u>
Fund balance, end of year	<u>\$877,237</u>	<u>\$877,237</u>	<u>\$573,595</u>	<u>(\$303,642)</u>

See Accompanying Notes To Financial Statements

OTHER SUPPLEMENTAL INFORMATION

Barry County Community Mental Health Authority
Supporting Schedule of Personnel Costs
For the Years Ending September 30, 2006 and 2005

Governmental Fund Types

General Fund

	<u>2006</u>	<u>2005</u>
Personnel costs		
Salaries and wages	\$1,811,781	\$1,640,903
Fringe benefits	<u>669,994</u>	<u>570,615</u>
Total personnel costs	<u><u>\$2,481,775</u></u>	<u><u>\$2,211,518</u></u>

See Accompanying Notes To Financial Statements

Barry County Community Mental Health Authority
Supporting Schedule of Operating Expenditures
For the Years Ending September 30, 2006 and 2005

Governmental Fund Types

General Fund

	<u>2006</u>	<u>2005</u>
Operating expenditures		
Communications	\$18,592	\$18,158
Contractual services	1,783,910	1,550,471
Inpatient services	301,310	293,692
Insurance	22,152	29,439
Medicaid local draw down	62,208	45,634
Meetings and conferences	11,597	11,304
Other	8,736	14,893
Rents	313,729	304,690
Repairs and maintenance	34,827	28,761
Printing and publishing	11,073	9,555
Supplies	55,088	46,375
Travel and transportation	140,388	129,203
Utilities	<u>8,007</u>	<u>7,258</u>
 Total operating expenditures	 <u><u>\$2,771,617</u></u>	 <u><u>\$2,489,433</u></u>

See Accompanying Notes To Financial Statements



**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF
FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS**

Board of Directors
Barry County Community Mental Health Authority
Hastings, Michigan

We have audited the accompanying financial statements of the governmental activities, each major fund and the aggregate remaining fund information of Barry County Community Mental Health Authority (the Authority) as of and for the year ended September 30, 2006, which collectively comprise the Authority's basic financial statements, and have issued our report thereon dated December 12, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States.

Internal Control over Financial Reporting

In planning and performing our audit, we considered the Authority's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Authority's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we reported to management of the Authority in a separate letter dated December 12, 2006.

This report is intended solely for the information and use of the audit committee, management, and the Board of Directors, and is not intended to be and should not be used by anyone other than these specified parties.



Roslund, Prestage & Company, P.C.
Certified Public Accountants

December 12, 2006



MANAGEMENT LETTER

Board of Directors
Barry County Community Mental Health Authority
Hastings, Michigan

In planning and performing our audit of the financial statements for Barry County Community Mental Health Authority for the fiscal year ended September 30, 2006, we considered the internal control structure to determine our auditing procedures for the purpose of expressing an opinion on the financial statements and not to provide assurance on the internal control structure.

However, during our audit we became aware of matters that are opportunities for strengthening internal controls. The memorandum that accompanies this letter summarizes our comments and suggestions regarding those matters.

This letter does not affect our audit report dated December 12, 2006 on the financial statements of Barry County Community Mental Health Authority.

We will review the status of these comments during our next audit engagement. We have discussed these comments and suggestions with management, and will be pleased to discuss them in further detail at your convenience, to perform any additional study of these matters, or to assist you in implementing the recommendations.

Sincerely,

Roslund, Prestage & Co

Roslund, Prestage & Company, P.C.
Certified Public Accountants

December 12, 2006

Provide Health Savings Accounts

Due to increasing costs of providing health insurance to the Authority's employees, we believe the Authority could take advantage of health savings accounts as a means of cost reductions while minimizing the additional cost to employees.

Health Savings Accounts were established by the Medicare Prescription Drug and Modernization Act of 2003. These accounts operate like IRAs and allow eligible individuals to make a tax-deductible contribution to cover the cost of the deductible of a high-deductible policy. To be eligible to make a contribution, the deductible must be at least \$1,100 for single coverage and \$2,200 for family coverage. The contribution is limited to \$2,850 for single coverage or \$5,650 for family coverage. These amounts will be inflation adjusted each year. The contribution limits for individuals 55 or older are allowed to be increased in accordance with IRS Regulations. The individual can take tax-free withdrawals from the account to pay for the deductible when obtaining health care under the insurance policy.

Health Savings Accounts have several beneficial features:

- On the individual's tax return, the deduction is claimed above the line for arriving at adjusted gross income, so individuals can claim it whether they itemize or not.
- There is no phase-out to the deduction for higher-income individuals like there is with an IRA.
- Any income earned on amounts in the account is tax-free for federal income tax purposes.
- Contributions not withdrawn for medical expenses can remain in the account to build a reserve for future years' expenses.
- Money can be withdrawn from the Health Savings Account to pay for qualified medical expenses. Any money withdrawn for other reasons will be subject to a 10 percent penalty and taxation. HSA holders over 65 years of age may use the account as a retirement nest egg and withdraw money for any reason without penalty.
- The Authority may, but need not, make deductible contributions for its employees; employer contributions are not subject to employment taxes and are not taxable to the employees.

A number of insurance companies offer high-deductible plans designed to enable employers of all sizes to take advantage of health savings accounts. Some insurers will also provide administrative services for the savings accounts.

Maximize Investment Income

During our audit, we found the balance in the Authority's checking account was in excess of monthly needs. We therefore recommend management redirect a portion of this balance to a certificate of deposit to maximize investment income.